



**Certified Public Accountants**

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Brandon W. Burrows  
Donald L. Parker  
Michael K. Chu  
David E. Hale  
*A Professional Corporation*  
Donald G. Slater  
Richard K. Kikuchi

*Retired*

Robert C. Lance  
1914-1994  
Richard C. Soll  
Fred J. Lunghard, Jr.  
1928-1999

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of the City Council  
City of Lancaster, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lancaster, California, as of and for the year ended June 30, 2008, which collectively comprise the City of Lancaster, California's basic financial statements and have issued our report thereon dated December 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Lancaster, California's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lancaster, California's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lancaster, California's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Lancaster, California's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Lancaster, California's financial statements that is more than inconsequential will not be prevented or detected by the City of Lancaster, California's internal control. We consider the following deficiencies described to be significant deficiency in internal control:



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### **Accounts Payable Accrual**

During our test work of accounts payable, we noted one invoice which related to fiscal year 2007-08 that was paid in fiscal year 2008-09 but not properly recognized as a liability in the prior fiscal year. This occurred because the invoice was received after the City's cut-off date for payables. Since recent auditing standards have made it clear that the independent auditor is not and cannot be part of their client's financial reporting process or its internal control, the City needs to review its procedures to ensure that all items which relate to the prior fiscal year are appropriately recorded. We recommend that in addition to the performance of the City's general cutoff procedures for payable, the City also review subsequent disbursements for potential accrual.

### **Cash and Investments**

During our test work of cash and investments, we noted certain activity and corrections were required in order to properly state the City's cash and investments. Since recent auditing standards have made it clear that the independent auditor is not and cannot be part of their client's financial reporting process or its internal control, the City needs to review its procedures to ensure its cash and investments are properly reported. We recommend that in addition to the performance of the City's regular cash reconciliations, a complete reconciliation of all of the City's cash and investments, including cash with fiscal agent, be completed.

### **Restatements**

The City reported certain restatements of Net Assets and Fund Balances for loans, land held for resale, capitalized interest, pass through computations, and miscellaneous other restatements for its financial statements.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Lancaster, California's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Lancaster, California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



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This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lance, Soll & Lunghard, LLP*

December 16, 2008